

Message Text

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ACTION EA-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-03
INR-10 NSAE-00 ICA-11 TRSE-00 XMB-02 OPIC-03
SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-07
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FM AMEMBASSY KUALA LUMPUR
TO SECSTATE WASHDC 3240
INFO AMEMBASSY SINGAPORE
AMCONSUL HONG KONG

LIMITED OFFICIAL USE KUALA LUMPUR 2708

HONG KONG FOR TREASURY REPRESENTATIVE SHARPE

E.O.11652: N/A
TAGS: EFIN, MY
SUBJECT: CENTRAL BANK ENFORCES PORTFOLIO GUIDELINES

1. BANK NEGARA MALAYSIA (THE CENTRAL BANK) HAS ANNOUNCED THAT IT INTENDS TO ENFORCE ITS INFORMAL "GUIDELINE" THAT ALL COMMERCIAL BANKS MUST HAVE TEN PERCENT OF THEIR LOAN PORTFOLIOS IN THE AGRICULTURAL SECTOR. AS A MECHANISM TO ASSIST THE BANKS TO MEET THIS "SOCIAL OBJECTIVE" THE BANK HAS STATED THAT COMMERCIAL BANKS CAN MAKE DEPOSITS IN THE AGRICULTURAL BANK, WHICH IS GOVERNMENT OWNED AND HAS THE DEMAND FOR ADDITIONAL FUNDS, THAT WILL COUNT AS AGRICULTURAL LOANS. THESE DEPOSITS WILL RECEIVE 6.5 PERCENT INTEREST.

2. AN AMERICAN BANKER HAS INFORMED THE EMBASSY THAT THIS RULING BY THE CENTRAL BANK WILL NOT PLACE ANY UNDUE HARDSHIP ON THE LOCAL OR FOREIGN BANKING COMMUNITIES. ACCORDING TO SOURCE THE RATE OF RETURN BEING OFFERED IS ATTRACTIVE WHEN LOOKED AT FROM THE COST OF CAPITAL AND ALTERNATIVE PLACEMENTS OF IT.

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NOTE: THE PRESENT LIQUIDITY RATION OF THE COMMERCIAL BANKING SECTOR IS 38 PERCENT, FAR ABOVE THE 25 PERCENT REQUIRED BY RESERVE REGULATIONS.

3. COMMENT: THIS MOVE ON THE PART OF THE CENTRAL BANK WILL HELP IT TO ACHIEVE TWO GOALS WITHOUT CAUSING ANY LARGE AMOUNT OF CRITICISM OR DISCONTENT IN THE BANKING SECTOR AND WILL DRAW

PRAISE FROM THE AGRICULTURAL SECTOR. THE FIRST GOAL WILL BE TO MEET THE CAPITAL NEEDS OF THE AGRICULTURAL BANK, WHICH WAS RECENTLY FORCED TO ROLL OVER SUBSTANTIAL AMOUNTS OF DEBT FROM RICE FARMERS THAT WERE ADVERSELY AFFECTED BY WEATHER AND REQUIRES FUNDS TO FINANCE THEIR NEXT CROP, AT A REASONABLE COST. THE OTHER ACHIEVABLE GOAL IS THE BANK'S DESIRE TO REDUCE THE PRESENT LIQUIDITY RATION WHICH IT PERCEIVES AS INFLATIONARY. MILLER

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Message Attributes

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